

Illinois Environmental Protection Agency

WATER POLLUTION CONTROL LOAN PROGRAM

2023 ANNUAL REPORT

July 1, 2022 – June 30, 2023

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Illinois EPA – Water Pollution Control Loan Program – 2023 Annual Report

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WATER POLLUTION CONTROL LOAN PROGRAM

2023 ANNUAL REPORT: July 1, 2022 – June 30, 2023

I. Introduction

In accordance with Section 606(d) of the Clean Water Act as amended (CWA) and the Water Pollution Control Loan Program (WPCLP) Operating Agreement between the Illinois Environmental Protection Agency (Illinois EPA) and the United States Environmental Protection Agency (U.S. EPA), this Annual Report addresses the activities, goals and reporting requirements of the WPCLP for the 12-month period from July 1, 2022, to June 30, 2023.

II. Executive Summary

The U.S. EPA awarded Illinois EPA two Federal Fiscal Year (FFY) 2022 CWSRF capitalization grants in the amount of \$132,824,000 on September 20, 2022, for use in the WPCLP. This amount consists of a Base and a Bipartisan Infrastructure Law (BIL) Supplemental capitalization grant.

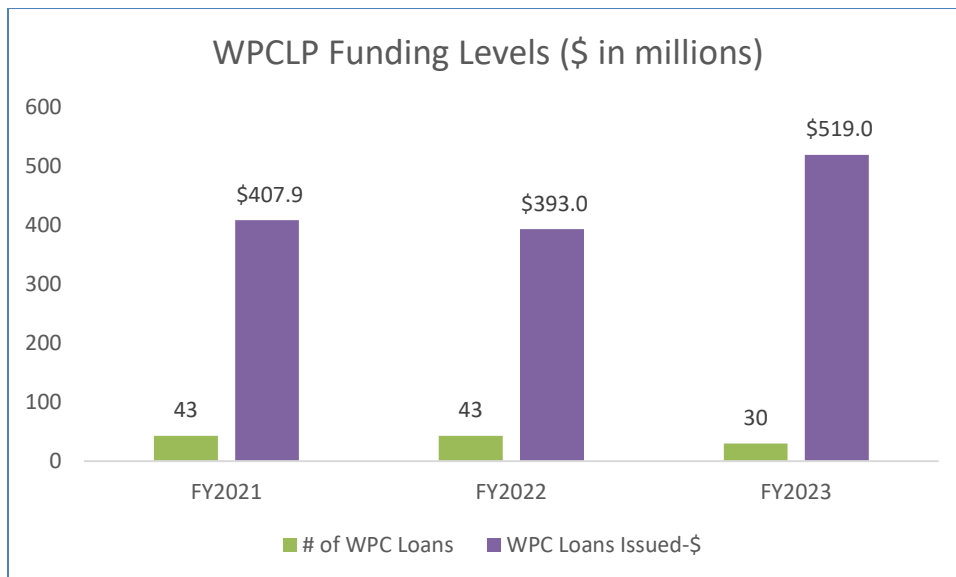
Detailed breakdown is shown in the table below:

Clean Water SRF Grants	FY2023- Allocation	Date Received
Base Capitalization Grant	\$52,330,000	September 20, 2022
BIL- Supplemental Grant	\$80,494,000	September 20, 2022
Total	\$132,824,000	

A total of \$283,707,093 in loan repayments was received during the reporting period, with those receipts consisting of \$230,109,195 in repayment principal and \$53,597,898 in repayment interest and loan support. The Illinois EPA utilized the loan support fund to provide match for the 319(h) grant in the amount of \$1,500,000.

During the reporting period, the Illinois EPA executed 30 new loans (binding commitments) totaling \$518,988,082 and 25 loan amendments totaling (\$7,747,599) for \$511,240,483 in net funds committed. These loans and amendments are detailed within Attachment A.

The Illinois EPA made \$515,000,000 available in anticipated funding for WPCLP in FY2023. The Illinois EPA is proud to report that FY23 was a record year in terms of funding projects as it funded \$518,988,082 in projects across Illinois. FY23 was the highest year ever in terms of funding for the loan program. The Illinois EPA will look to continue this momentum in FY24.



III. Conditions of the Capitalization Grant Agreement

The Illinois EPA has agreed to administer the WPCLP in accordance with their Operating Agreement with the U.S. EPA, all conditions related to receipt of the capitalization grant agreement awarded by the U.S. EPA, and with the components of the grant application, which includes the Intended Use Plan (IUP). The Illinois EPA has maintained compliance with all cash draw rules, including separation of cash draws by the WPCLP from other U.S. EPA funded programs. Cash draw projections have been reviewed and revised by the Illinois EPA based on the availability of funds. Proportionality will be maintained not only on deposits into the WPCLP but also on expenditures out of the WPCLP.

A. Goals and objectives

1. Short Term Goals

- a. As a result of the federal Infrastructure Investment and Jobs Act, commonly referred to as the Bipartisan Infrastructure Law (BIL), Illinois EPA applied for the first of five federal “BIL supplemental CWSRF” capitalization grants. The first BIL supplemental CWSRF grant of \$80,494,000 was applied for in conjunction with the “base CWSRF” capitalization grant and the funds were included to increase the capacity of the Water Pollution Control Loan Program in FY2023.
- b. As a result of BIL, Illinois EPA received an additional \$4,229,000 in BIL CWSRF emerging contaminant funding to assist eligible applicants with addressing emerging contaminants in FY24. It should be noted that the IEPA decided to transfer the CWSRF EC funds to DWSRF since there are no CWSRF EC projects currently. Illinois EPA did not apply for this grant in FY23.
- c. Provide funding to as many eligible projects as possible, to the extent that the requirements for obtaining funding are satisfied and

funds are available.

Illinois EPA entered 30 new loans (binding commitments) totaling \$518,988,082 and 25 loan amendments totaling (\$7,747,599) for \$511,240,483 in net funds committed.

- d. Focus financial assistance for projects necessary to achieve or maintain compliance with State and federal regulations.
The Illinois EPA continues to focus on projects necessary to achieve or maintain compliance with applicable federal and state regulations and will continue to review procedures with a focus towards funding such projects.
- e. Continue to provide support for projects, or project components, focused on “green infrastructure, water or energy efficiency improvements or other environmentally innovative activities”.
The Illinois EPA continues to support projects and project components focused on “green infrastructure, water or energy efficiency improvements or other environmentally innovative activities”.
- f. Manage a program that provides applicants with a streamlined approach to financing treatment works projects and other projects eligible for funding.
The Illinois EPA is continuing efforts to improve program operations using best management practices in the administration of the program.
- g. Provide continuous improvement to both the short and long-term planning efforts to ensure the financial strength and stability of the loan programs are maintained.
The Illinois EPA continues to explore best practices which will contribute to the growth and stability of the Water Revolving Fund (the Fund) by consulting with financial advisors and industry professionals to examine interest rate setting, leveraging capacity and overall financial management of the program.
- i.) Analyze the methodology used for the establishment of loan program interest rates and initiate a rule modification to establish a new basis for determining interest rates to strengthen the long-term viability of the loan program and ensure a stable and perpetual financing source.
The Illinois EPA has reached out to loan program stakeholders concerning modification to the loan program’s interest rates and will continue to be in consultation with them to develop a new methodology for the establishment of loan program interest rates to strengthen the long-term viability of the loan program.

2. Long Term Goals

- a. Assist a broad range of water quality improvement actions that help fulfill the objectives of the Clean Water Act (CWA)
As detailed in Attachment A, the Illinois EPA has established a program which consistently provides financial assistance to all types of eligible projects under the WPCLP. Illinois has made statutory changes to expand eligibilities in conjunction with the expansion of eligibilities under federal law.
- b. Facilitate the development and implementation of technically appropriate and financially sustainable projects by small communities.
The Illinois EPA has implemented interest rate reductions and principal forgiveness parameters directed at small and poor communities to assist with the challenges faced by these communities to implement both technically appropriate and financially sustainable projects into the future.
- c. Target assistance to small and disadvantaged communities to reduce the financial impact of capital improvements projects on the users of smaller systems and systems serving less affluent populations.
As demonstrated by the new interest rate tiers, and the focus of additional subsidization towards disadvantaged communities, the Illinois EPA will continue to focus strategies towards providing advantageous financing opportunities to small and economically challenged communities.
- d. Continue to proactively develop assistance opportunities to encourage implementation of priority water quality improvement projects and Agency priorities.
The Illinois EPA Bureau of Water staff regularly discuss issues and share ideas regarding opportunities for the loan program to provide funding assistance for projects that will provide water quality improvements as well as meeting the priorities of the Agency.
- e. Manage the Fund to ensure appropriate levels of financing and adequate funds to administer the program are available.
The Illinois EPA continues to explore best practices which will contribute to the growth and stability of the Fund. The Illinois EPA has been working with financial advisors to calculate the leveraging capacity of the SRF loan programs, the immediate need for bond proceeds, and future average annual funding levels the WPCLP can provide while meeting its perpetuity requirements. The Illinois EPA has also worked with Northbridge to create their own forecasting model for the program. The Agency has a designated person who is responsible for running this model and providing analysis on the findings. The Illinois EPA has increased outreach efforts to make more communities aware of the funding available and is

working to streamline application materials to make the process of obtaining funding as efficient as possible.

- f. Continue to assist in the development and implementation of innovative and non-traditional projects that benefit water quality resources.

The Illinois EPA continues to explore new ideas and practices that will contribute to continued growth in the number and types of projects considered by the WPCLP. Illinois EPA has made statutory changes to expand eligibilities to mirror the expansion of eligibilities under federal law.

- g. Encourage the consolidation and/or regionalization of wastewater collection and treatment systems so these systems may take advantage of economies of scale and the most cost-effective solutions to wastewater collection and treatment.

The Illinois EPA continues to explore ideas and solutions that will encourage consolidation and/or regionalization of wastewater collection and treatment systems. Regionalization has been included as an activity that gives additional points to project applications as part of the project prioritization scoring system. Consolidation and/or regionalization is also encouraged in the new Unsewered Communities Construction and Planning Grant Programs which was announced in FY2023. Applications for both grant programs were accepted during FY2023, and the processing and award of those grants were also anticipated to occur sometime in FY2023.

- h. To maintain the integrity of the Water Revolving Fund by providing a stable and perpetual financing source to eligible loan applicants for treatment works and other eligible projects within the State, and to commit all available loan resources to those loan applicants.

The Illinois EPA has established a revolving loan program, the WPCLP, which will operate in perpetuity for the benefit of eligible loan applicants in Illinois. The Water Revolving Fund remains healthy, with a AAA Bond Rating.

B. Green Project Reserve (GPR) Requirement

As required by the 2022 capitalization grant agreement; the Illinois EPA has utilized not less than 10% of capitalization funds provided to furnish continued support for projects or project components focused on “green infrastructure, water or energy efficiency improvements or other environmentally innovative activities”. GPR commitments assigned to the 2022 capitalization grant agreement were for projects that met the definitions developed under guidance provided by the USEPA which were funded by the WPCLP during FY2023. The final (total) GPR commitment assigned to the FY 2022 capitalization grant is \$24,711,491 which is above the \$13,282,400 required by the FY 2022 capitalization grant agreement (Base + BIL Supplemental Grants). For more information please click on the “CWSRF Green Project Reserve List FY2022” link on the State Revolving Fund

Postings page on the Agency website at:
<https://www2.illinois.gov/epa/topics/grants-loans/state-revolving-fund/Pages/postings.aspx>

C. Additional Subsidy Requirement

By accepting the 2022 capitalization grant, the WPCLP agreed to provide additional subsidization in the form of principal forgiveness, negative interest rate loans, or grants to recipients of eligible loans. The WPCLP continues to meet the additional subsidization requirement by awarding principal forgiveness. Although the name is different, in practical application principal forgiveness functions much like a grant *i.e.*, the eligible capital costs of the project are reduced by the principal forgiveness amount, thereby eliminating a portion of the principal (and interest) that the borrower must repay.

The WPCLP can offer a reduction to the amount of principal that an applicant would otherwise need to repay for its project. This reduction is called “principal forgiveness,” per federal statute. Although the name is different, in practical application, principal forgiveness functions much like a grant *i.e.*, the eligible capital costs of the project are reduced by the principal forgiveness amount, thereby eliminating a portion of the principal (and interest) that the borrower must repay.

Section 603(i) of the Clean Water Act requires states to provide a minimum of 10% and a maximum of 30% (\$15,699,000) of its annual available Capitalization Grant funds to provide subsidization, in the form of principal forgiveness, for loan recipients which meet the affordability criteria established by the State in the loan rules 35 Ill. Adm. Code Part 365. In addition to the “base CWSRF” capitalization grant the Agency will be receiving a “supplemental CWSRF” capitalization grant in the amount of \$80,494,000 and 49% of this grant, or \$39,442,060, must be provided as subsidization, in the form of principal forgiveness. The WPCLP can provide a maximum of \$55,141,060 in principal forgiveness in FY 2023 for loan recipients which meet the affordability criteria established by the State. This “affordability criteria” principal forgiveness provided via assistance awards will follow the terms outlined in Appendix C, but in accordance with Section 365.250(c) of the Loan Rules, a cap of \$5,000,000 in principal forgiveness per loan recipient will be put in place. The cap is being put in place due to the unprecedented program capacity level and the corresponding number of projects that qualified for the Intended Funding List as well as for principal forgiveness. Projects which were limited by the cap have the option of phasing their construction activity over multiple fiscal years to try and maximize the amount of principal forgiveness that can be obtained. The Agency anticipates a cap on the amount of principal forgiveness that one loan recipient can obtain in future years will remain in place.

As projects on the Intended Funding List that qualified for principal forgiveness are bypassed, those funds will be made available, with priority given to the project with the higher loan priority score, to the next applicant which qualifies for a Letter of Commitment in accordance with Section 365.355 of the Loan Rules, excluding Section 365.355(a)(2).

In addition to the subsidization required to be provided by the Clean Water Act, the federal Capitalization Grant as a result of the annual appropriations act requires that 10% (\$5,233,000) of the available funds may be used to provide additional subsidization for eligible loan recipients in the form of principal forgiveness (“appropriation” principal forgiveness). Use of these funds and eligibility is determined by each state. The Illinois EPA will divide a portion of the “appropriation” principal forgiveness into three segments, making \$2,000,000 available for Wastewater Treatment Facility Consolidation Compliance Assistance principal forgiveness, \$2,000,000 available for Wastewater Treatment Facility Consolidation principal forgiveness, and \$1,200,000 available for Wastewater Treatment Facility Compliance Solution principal forgiveness as described below. Any of the unused “appropriation” principal forgiveness will be provided as Disadvantaged Community principal forgiveness.

Wastewater Treatment Facility Consolidation Compliance Assistance Principal Forgiveness – Illinois EPA made \$2,000,000 in principal forgiveness available for public loan applicants who own and operate a wastewater treatment facility whose project would result in the consolidation of two or more wastewater treatment facilities. The funded project must result in the elimination of one or more NPDES Permit(s) for a wastewater treatment facility meeting the following requirements:

- 1) The Agency has issued a Violation Notice against the wastewater treatment facility being eliminated under Section 31 of the Illinois Environmental Protection Act.
- 2) The wastewater treatment facility being eliminated is chronically in significant non-compliance, as defined by the Technical Review Criteria (TRC) in Appendix A of 40 CFR Part 123.45, with its NPDES Permit effluent limits.
- 3) The wastewater treatment facility being eliminated has an NPDES Permit Design Average Flow of less than one-million gallons per day.

Illinois EPA made \$2,000,000 in principal forgiveness available for these projects in FY2023. Applicants will be scored and ranked for priority in accordance with 35 Ill. Adm. Code 662.345. No applicant could receive more than \$1,000,000 in wastewater treatment facility compliance assistance principal forgiveness in FY2023.

Wastewater Treatment Facility Consolidation Principal Forgiveness – Illinois EPA made \$2,000,000 in principal forgiveness available for public loan applicants who own and operate a wastewater treatment facility whose project would result in the consolidation of two or more wastewater treatment facilities that are compliant with their NPDES Permit conditions. The funded project must result in the elimination of one or more NPDES Permit(s) for a wastewater treatment facility meeting the following requirements:

- 1) The wastewater treatment facility being eliminated has an NPDES Permit Design Average Flow of less than one-million gallons per day.

Illinois EPA made \$2,000,000 in principal forgiveness available for these projects in FY2023. Applicants will be scored and ranked for priority in accordance with 35 Ill. Adm. Code 662.345. No applicant could receive more than \$1,000,000 in wastewater treatment facility non-compliance principal forgiveness in FY2023.

Wastewater Treatment Facility Compliance Solution Principal Forgiveness – Illinois EPA made \$1,200,000 in principal forgiveness available for public loan applicants who own and operate a wastewater treatment facility whose project would result in the treatment facility coming into compliance with their NPDES Permit conditions. The funded project must occur at a wastewater treatment facility meeting the following requirements:

- 1) The Agency has issued a Violation Notice against the wastewater treatment facility under Section 31 of the Illinois Environmental Protection Act.
- 2) The wastewater treatment facility is chronically in significant non-compliance, as defined by the Technical Review Criteria (TRC) in Appendix A of 40 CFR Part 123.45, with its NPDES Permit effluent limits.
- 3) The wastewater treatment facility has an NPDES Permit Design Average Flow of less than one-million gallons per day.

Illinois EPA made \$1,200,000 in principal forgiveness available for these projects in FY2023. Applicants will be scored and ranked for priority in accordance with 35 Ill. Adm. Code 662.345. No applicant could receive more than \$600,000 in wastewater treatment compliance solution principal forgiveness in FY2023.

No loan applicants qualified for the Treatment Facility Compliance Solution Principal Forgiveness.

D. Certifications

The Illinois EPA has also provided the necessary certification from the Illinois Attorney General, for each capitalization grant received, that the Illinois EPA can legally bind itself to the terms of the capitalization grant, and in accordance with the Drug-Free Workplace Act of 1988, the Illinois EPA has instituted a Drug-Free Workplace Policy. This policy encourages any Illinois EPA employee with a potential drug or alcohol problem to use the State Employee Assistance Program. Also, by accepting the most recent capitalization grant, the Illinois EPA has certified again that it will comply with the requirements of the Anti-Lobbying Act. The Illinois EPA has taken affirmative steps to meet the requirements of the Federal Funding Transparency and Accountability Act of 2006 (FFATA) and is operating the WPCLP in compliance with all FFATA reporting requirements. And finally, the Illinois EPA certifies that all assistance made available under the WPCLP was provided under terms and conditions requiring compliance with the Davis-Bacon Wage Act as specified in the appropriations for the Clean Water SRF. In short, the Illinois EPA has established a program which will lead to adherence to all objectives and conditions of each capitalization grant received.

IV. Program Funding

A. Source of Funds

1. Capitalization Grants

The U.S. EPA awarded the FY 2023 Base capitalization grant to Illinois

EPA on September 20, 2022, in the amount of \$52,330,000.

The U.S. EPA awarded the BIL- Supplemental FY23 grant to the Illinois EPA on September 20, 2022, in the amount of \$80,494,000.

2. State Matching Funds

The State of Illinois provided \$18,515,400 in total CWSRF State Match. The Wastewater State Match covered both Base capitalization grant and the Bipartisan Infrastructure Law (BIL) Supplemental grant. The state match requirement for the Base capitalization grant is 20% and 10% for the BIL Supplemental grant.

3. Repayment Funds

The Illinois EPA will commit all loan repayment funds and fund equity resources to the WPCLP for binding commitments.

4. Leveraging

On December 15, 2020, the program issued \$50,000,000 in Drinking Water Leveraged Bonds. After adding the premium of \$12,800,170.05 and subtracting costs of issuance, the realized proceeds of \$62,800,170.05 are for use in the loan program. The supplemental funding from BIL has allowed the loan program to delay the need for leveraging currently. The Agency continues to monitor the need for a potential future leveraging exercise by running internal cash flow models.

B. Binding Commitments

Illinois EPA entered 30 new loans (binding commitments) totaling \$518,988,082 and 25 loan amendments totaling (\$7,747,599) for \$511,240,483 in net funds committed.

C. Disbursements

Disbursements made to loan recipients during this reporting period amounted to \$271,188,939. Source of funds was as follow: 58% from leveraged bonds, 13% from state match and the remaining from federal grant and repayment funds.

For this entire reporting period, the Illinois EPA utilized a cash draw methodology of matching the federal grant at 100% prior to drawing any federal funds. Once the state match requirement has been met, Illinois EPA draws at a ratio of 100% federal funds until the grant is exhausted. Illinois EPA will continue to expend administrative costs from fund equity and use 100% of the grant to disburse to loan recipients.

D. Fiscal Status of the WPCLP

An analysis in this area requires a direct comparison of financial data including revenues, expenditures, WPCLP sources and uses, and WPCLP balance (see Attachment B, Financial Statements). The Illinois EPA has established operating procedures and management tools which it believes will assure program operation in perpetuity.

V. Program Requirements

A. Financial Reports

The Illinois EPA has submitted the Federal Cash Transaction Report (FCTR) on a quarterly basis and the Financial Status Report (FSR) on an annual basis.

B. MBE/WBE Reporting

The Illinois EPA has submitted a completed “MBE/WBE Utilization Under Federal Grants, Cooperative Agreements and Interagency Agreements” report (EPA Form 5700-52A) on an annual basis.

C. Single Audit Act

The Illinois EPA has complied with the requirements of the Single Audit Act historically. In FY2023, a Statewide Single Audit has not been performed on the State of Illinois so far. The agency has submitted all the data that was requested but it is yet to be determined if the agency will meet the current year threshold.

D. Generally Accepted Auditing Standards and Accounting Principles

The Illinois EPA has complied with Generally Accepted Government Auditing Standards (GAGAS) and all loan recipients are encouraged to comply with Generally Accepted Accounting Principles (GAAP).

E. Federal Requirements

The Illinois EPA has fulfilled all applicable federal requirements required by the CWA including;

- 1) Assurances and certifications provided in the IUP have been met;
- 2) Environmental reviews have been done in accordance with federal and State law;
- 3) Made binding commitments to provide assistance equal to more than the required 120% of the amount of each grant payment within one year after receiving the grant payment.
- 4) All funds have been expended in an expeditious and timely manner; and
- 5) Beginning January 17, 2014 implemented the “American Iron and Steel” requirement as described in the Consolidated Appropriation Act of 2014.

Attachment A- List of Loan Awards
Attachment B- WPCLP Financial Statements